

Response to options paper Regulating Buy Now, Pay Later in Australia



About Way Forward

Way Forward is an Australian debt relief charity that supports people in financial difficulty. We are currently working with over 1,000 people in the negotiation and management of repayment plans on our clients' behalf.

Way Forward's purpose is to assist our clients out of hardship and help them to regain control of their finances. We work alongside clients until their debts are cleared, offering a specialised service using a case manager to provide one-on-one support by:

1. Establishing a workable budget
2. Negotiating affordable arrangements with creditors
3. Facilitating debt repayments – clients make one repayment to Way Forward that Way Forward then disburses to all their lenders

Profile of who Way Forward represents

- Way Forward's clients are best identified as being part of middle-income Australia
- Our clients are located in all states and territories
- 35% of our clients are aged between 25–39 and 49% between 40–55
- 80% have used BNPL services in the last 12 months
- 63% have used more than one BNPL service



The median income (by quartiles) of Way Forward's clients represents a broad spectrum of middle-income Australia.

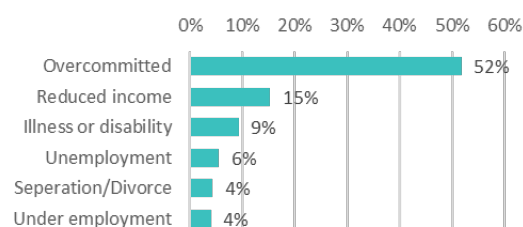
<i>Client by income quartile</i>	0-25%	25-50%	50-75%	75-100%
<i>Median gross income pa</i>	\$47,676	\$78,624	\$112,632	\$178,788
<i>\$ Debt at first discussion</i>	\$34,524	\$49,324	\$54,362	\$64,858
<i># debts</i>	4.5	5	5.3	5.4
<i># creditors</i>	3.5	4	4.1	4

For the last four years the primary reason for financial difficulty has been financial overcommitment; however, the proportion of people experiencing this as the primary source of financial difficulty has increased from 39.6% in 2019 to 51.8% in 2022.

Our clients are best be described as:

- Overwhelmed by trying to co-ordinate different payment dates and amounts
- Overwhelmed in dealing with multiple creditors and the resultant volume of phone calls
- Struggling to repeatedly articulate their situation to creditors
- Lacking the ability to negotiate with multiple creditors and develop a holistic solution that will strengthen their whole financial situation and not just service an individual debt

Primary reason for financial difficulty - 2022



Support for options 2–3

In considering the three options Way Forward sees the merits of option 3, or a hybrid of options 2 and 3. In reviewing the circumstances for the clients we support we look for solutions that include:

- Restrictions on the use of BNPL for essential items for people in financial difficulty
- Mandatory credit checks
- No unsolicited limit increases
- Further verification/substantiation where more than two BNPL facilities are in use
- Governance by External Dispute Resolution (EDR)
- Mandatory hardship reporting
- Greater clarity on purchases and the related instalments

Sources of harm observed

We base the above requirements on the sources of harm our clients experience, which include:

1. Excessive ease of access
2. Lack of support for vulnerable individuals
3. The inability of BNPL users to understand and manage all the transactions
4. What goods and services BNPL is being used for
5. Poor mental health outcomes as a direct result of unmanageable debt

All information represented in this submission has been compiled from aggregated data of our clients' information and our 2022 survey on BNPL that was completed by Way Forward clients, '[Balancing act: How financially vulnerable people are using BNPL to "dig their way out of debt"](#)'.

1. Excessive ease of access

Given our clients are already on long-term hardship arrangements, we were surprised to learn that many of our clients love BNPL, primarily because it's so easy to access and offers interest-free finance. Other findings included:

- 80% of surveyed clients were still using BNPL products
- 84% would rather use BNPL than a credit card
- 63% of our clients reverted to BNPL when no other credit options were available
- Only 24% of clients felt that sufficient checks had been completed prior to accessing BNPL
- Many in financial difficulty use BNPL on top of their existing debts

Given the ease of obtaining BNPL arrangements, for people experiencing financial difficulty the use of BNPL as a short-term solution to a longer-term problem is a growing concern.

To appropriately restrict access to BNPL products, Way Forward recommends:

- 1.1 Providers undertake mandatory credit checks for all new BNPL applications or limit increases
- 1.2 Providers are required to conduct a basic assessment of each client's financial situation
- 1.3 Providers access CDR data to confirm existing lending is up to date and the client is not in hardship
- 1.4 Providers are required to conduct an enhanced assessment of any application or increase where more than two BNPL products are used
- 1.5 Providers are restricted from making unsolicited limit increases

2. Lack of support for vulnerable individuals

Our observations and dealings with BNPL providers have uncovered a varied approach to the support of vulnerable individuals. The majority of concern revolves around access to support measures that are tailored to the unique circumstances of the individual. That is, the ability to access advocates for support, the opportunity to speak to someone over the phone, the option of communication via online chat or email if preferred and the ability to raise a complaint when an individual feels they are not being heard. Some of the specific observations that have created frustration for both our organisation and our clients include:

- PayPal will only allow us to advocate for a client if they have a wet signed paper document delivered to their office in the US
- Afterpay will only allow for online correspondence with an individual. For those experiencing financial difficulty it can be difficult to clearly explain their situation in this context, and the ability to directly speak to someone can alleviate a vulnerable individual's concerns

To increase support for vulnerable individuals, Way Forward recommends:

- 2.1 Each provider is a member of AFCA
- 2.2 Providers are required to have a dedicated hardship assistance line with adequately trained staff
- 2.3 Like other lenders, providers adhere to finance industry complaints regulations

3. The inability of BNPL users to understand and manage all the transactions

In many cases, the number of BNPL products used and the number of transactions both grow exponentially, making it near impossible for someone experiencing financial difficulty and mental stress to reconcile their financial situation at any given time, other than by checking how much money is left in their account.

Further, it becomes difficult to track what particular debt an instalment amount relates to. For frequent users it can be hard to reconcile purchases and identify any fraud or financial abuse.

To support BNPL users to better understand their financial situation, Way Forward recommends:

- 3.1 Details recorded on bank transaction accounts include the date of the original purchase, what was purchased and how many instalments for that purchase are remaining
- 3.2 Proactive notifications are given in advance where a significant amount or number of transactions will be taken from a client's account

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Transaction Details				
Date	Particulars	Debits	Credits	Balance
05 May 22	V1159 05/05 THE COMMONS SOUTHPORT SOUTHPORT	\$11.00		\$1,226.16 CR
05 May 22	INTERNET TRANSFER NT: CE13015764	\$35.00		\$1,191.16 CR
05 May 22	INTERNET TRANSFER NT: CE13015765	\$50.00		\$1,141.16 CR
05 May 22	V1159 04/05 AFTERPAY MELBOURNE 74316012124	\$5.00		\$1,136.16 CR
05 May 22	V1159 04/05 AFTERPAY MELBOURNE 74316012124	\$6.25		\$1,129.91 CR
05 May 22	V1159 04/05 AFTERPAY MELBOURNE 74316012124	\$7.50		\$1,122.41 CR
05 May 22	V1159 04/05 AFTERPAY MELBOURNE 74316012124	\$7.50		\$1,114.91 CR
05 May 22	V1159 04/05 AFTERPAY MELBOURNE 74316012124	\$7.50		\$1,107.41 CR
05 May 22	V1159 04/05 AFTERPAY MELBOURNE 74316012124	\$9.07		\$1,098.34 CR
05 May 22	V1159 04/05 AFTERPAY MELBOURNE 74316012124	\$12.32		\$1,086.02 CR
05 May 22	V1159 04/05 AFTERPAY MELBOURNE 74316012124	\$12.34		\$1,073.68 CR
05 May 22	V1159 04/05 AFTERPAY MELBOURNE 74316012124	\$12.50		\$1,061.18 CR
05 May 22	V1159 04/05 AFTERPAY MELBOURNE 74316012124	\$12.50		\$1,048.68 CR
05 May 22	V1159 04/05 AFTERPAY MELBOURNE 74316012124	\$12.50		\$1,036.18 CR
05 May 22	V1159 04/05 AFTERPAY MELBOURNE 74316012124	\$12.50		\$1,023.68 CR
05 May 22	V1159 04/05 AFTERPAY MELBOURNE 74316012124	\$12.50		\$1,011.18 CR
05 May 22	V1159 04/05 AFTERPAY MELBOURNE 74316012124	\$12.50		\$998.68 CR
05 May 22	V1159 04/05 AFTERPAY MELBOURNE 74316012124	\$12.50		\$986.18 CR
05 May 22	V1159 04/05 AFTERPAY MELBOURNE 74316012124	\$12.50		\$973.68 CR
05 May 22	V1159 04/05 AFTERPAY MELBOURNE 74316012124	\$16.30		\$957.38 CR
05 May 22	V1159 04/05 AFTERPAY MELBOURNE 74316012124	\$16.30		\$941.08 CR
05 May 22	V1159 04/05 AFTERPAY MELBOURNE 74316012124	\$16.98		\$924.10 CR
05 May 22	V1159 04/05 AFTERPAY MELBOURNE 74316012124	\$16.98		\$907.12 CR
05 May 22	V1159 04/05 AFTERPAY MELBOURNE 74316012124	\$16.98		\$890.14 CR
05 May 22	V1159 04/05 AFTERPAY MELBOURNE 74316012124	\$17.50		\$872.64 CR
05 May 22	V1159 04/05 AFTERPAY MELBOURNE 74316012124	\$17.50		\$855.14 CR
05 May 22	V1159 04/05 AFTERPAY MELBOURNE 74316012124	\$18.75		\$836.39 CR
05 May 22	V1159 04/05 AFTERPAY MELBOURNE 74316012124	\$18.75		\$817.64 CR
05 May 22	V1159 04/05 AFTERPAY MELBOURNE 74316012124	\$18.75		\$798.89 CR
05 May 22	V1159 04/05 AFTERPAY MELBOURNE 74316012124	\$18.75		\$780.14 CR
05 May 22	V1159 04/05 AFTERPAY MELBOURNE 74316012124	\$18.75		\$761.39 CR
05 May 22	V1159 04/05 AFTERPAY MELBOURNE 74316012124	\$20.25		\$741.14 CR
05 May 22	V1159 04/05 AFTERPAY MELBOURNE 74316012124	\$22.25		\$718.89 CR
05 May 22	V1159 04/05 AFTERPAY MELBOURNE 74316012124	\$25.00		\$693.89 CR
05 May 22	V1159 04/05 AFTERPAY MELBOURNE 74316012124	\$30.50		\$663.39 CR
05 May 22	V1159 04/05 AFTERPAY MELBOURNE 74316012124	\$37.50		\$625.89 CR
05 May 22	V1159 04/05 AFTERPAY MELBOURNE 74316012124	\$37.50		\$588.39 CR
05 May 22	V1159 04/05 AFTERPAY MELBOURNE 74316012124	\$37.50		\$550.89 CR
05 May 22	V1159 04/05 AFTERPAY MELBOURNE 74316012124	\$134.00		\$416.89 CR
05 May 22	V1159 04/05 FLEXISCHOOLS* ACC TO PUP 1300 361 7 03091050056	\$20.19		\$396.70 CR
05 May 22	118190290077256829 BUDGET DIRECT	\$31.78		\$364.92 CR
05 May 22	DT.OEYEQ FERRATUM/ FERRATUM	\$77.64		\$287.28 CR

Important

- This provisional list is not a statement of account.
- It may include transactions which may appear on previous statements.
- It may not include all transactions processed since last statement was issued.
- With the exception of cheque serial numbers, the details shown in the particulars column may be an abbreviation.
- Inclusion of a debit does not always indicate a payment by the bank.

National Australia Bank Limited ABN 12 004 044 937 AFSL and Australian Credit Licence 230646

4. What goods and services BNPL is being used for

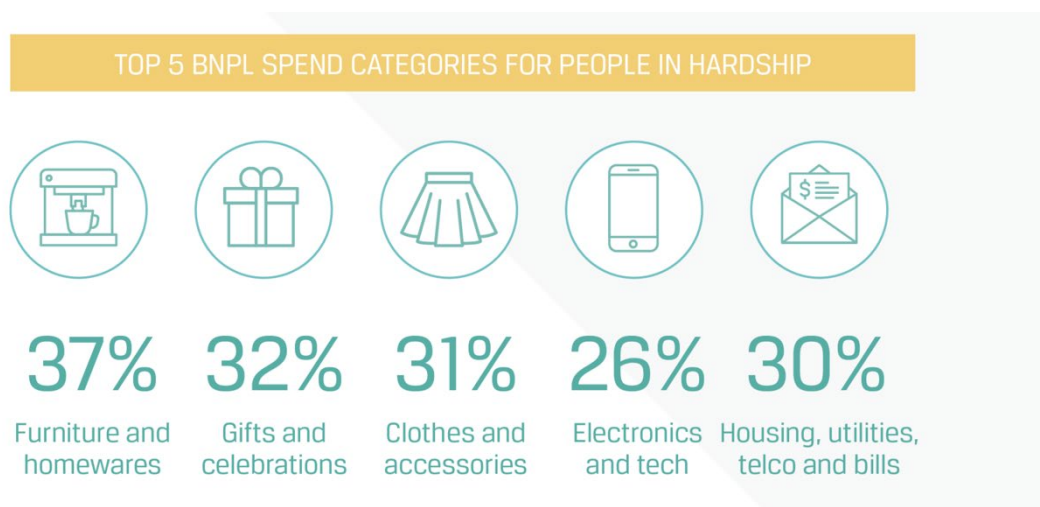
Way Forward’s research discovered that some financially vulnerable clients access BNPL to pay for essentials while using cash or other assets to meet credit card or loan repayments.

For the BNPL debts that become part of Way Forward repayment plans, these debts can be problematic because of their inflexibility when negotiating repayment terms. If the client wishes to keep paying BNPL payments as part of the agreement, there are few options to reduce the repayment amount. Our observation in these circumstances is that the client prioritises BNPL debt over other creditors until the BNPL debt is repaid, which, given the higher repayment amount, places pressure on an already stretched budget.

Among Way Forward clients who have used BNPL, 83% have owed a maximum of \$2,000 or less to BNPL providers in the past 12 months. This is significantly lower compared to the average credit card debt of \$9,900 per card of a Way Forward client.

Most (65%) expect to use BNPL in the next year for shopping. However, a substantial number (31%) agree they have taken on BNPL debt ‘on a whim’ and regretted it later.

We asked the respondents to share what they’ve bought with their BNPL arrangements, and the most popular items were a mix of big purchases such as furniture and technology, as well as gifts.



More than a quarter (30%) have used BNPL to pay for housing, utilities, telecommunications and household bills, which may be a potential indicator of a deteriorating financial situation for someone who is in financial difficulty.

The use of BNPL to purchase essentials should be seen as trigger for further enquiry regarding a BNPL user’s financial situation.

The use of BNPL for people in long-term hardship arrangements to purchase gifts and other discretionary items is concerning, as the products make it easy to upsell and impulse buy, resulting in increased harm to the individual.

To support appropriate BNPL use, Way Forward recommends:

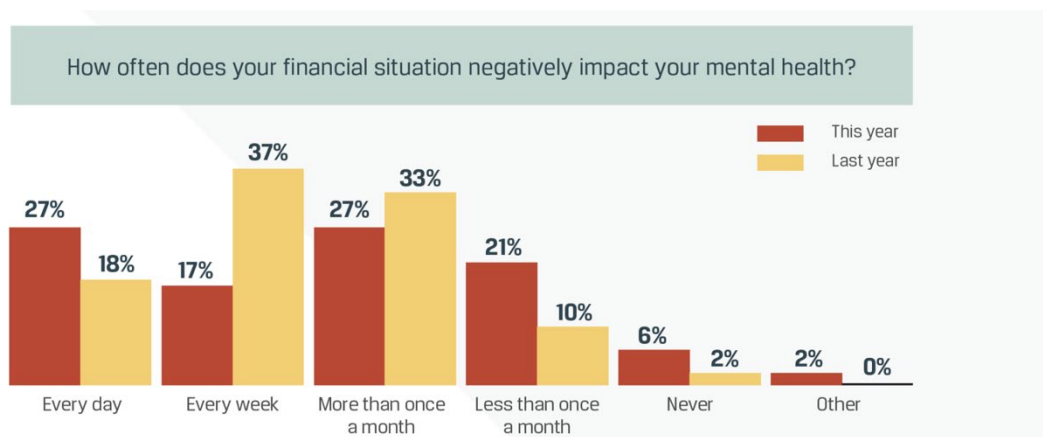
- 4.1 BNPL providers are not permitted to offer BNPL products to purchase essential items such as food, utilities and other essential services
- 4.2 Where an individual is in financial hardship (as recorded in their credit file) product access is restricted until the individual has completed payment of all instalments. That is, they should not be able to repeatedly make new purchases whilst struggling to repay existing BNPL debts

5. Poor mental health outcomes as a direct result of unmanageable debt

While we recognise the challenges in relation to mental health and restrictions to financial products, we nonetheless need to call out the strong correlation between financial stress and poor mental health. The findings of our [report](#) confirm that there is a correlation between poor mental health and complex debt, insufficient savings and financial vulnerability.

This means that financial providers have a duty of care to support positive financial and mental health outcomes when engaging with customers experiencing financial difficulty.

In relation to regulation, we believe this connection between unmanageable debt and poor mental health demonstrates the critical nature of mandatory hardship reporting.



Lenders and BNPL providers should recognise that people in financial difficulty are more likely to suffer from poor mental health due to their difficult financial situation. As such, BNPL repayments have the potential to adversely impact an individual’s mental health.

The following recommendations are aimed at BNPL providers’ service offering rather than regulation and should be a visible demonstration of their duty of care.

To support better mental health outcomes in BNPL users, Way Forward recommends:

- 5.1 Providers use technology to identify those at risk of experiencing financial difficulty
- 5.2 Providers refine internal processes to ensure holistic customer support and timely resolution of enquiries
- 5.3 Providers build systems and processes that ensure compassionate, kind and personalised service to customers experiencing the stresses of financial difficulty
- 5.4 By design, these systems and processes refrain from asking individuals to repeat or continually relive the reasons for their hardship